

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7521

Petition of Vermont Public Power Supply Authority,)
pursuant to 30 V.S.A. § 108(a), for Authority to Issue)
Bonds for the Construction and Operation of the)
Swanton Peaking Generation Project)

Order entered: 6/12/2009

I. INTRODUCTION

On April 22, 2009, the Vermont Public Power Supply Authority ("VPPSA" or "Company") filed a petition (the "Petition") with the Vermont Public Service Board ("Board") for approval pursuant to 30 V.S.A. §108(a) to obtain long-term financing for the construction of the Swanton Peaking Generation Project ("Project 10" or "Project"). VPPSA proposes to issue tax-exempt bonds up to a total of \$26.8 million (the "Bonds") with an all-in interest rate not to exceed 6.40% for a term of twenty years. KeyBanc Capital Markets ("KBCM") would be the underwriter for the issuance of the Bonds. The Petition was supported by the prefiled testimony of Crystal Carrier, Controller for VPPSA, and Scott Corse, General Manager for VPPSA, and by accompanying exhibits.

On May 28, 2009, the Department of Public Service ("DPS") filed a letter, with attached Determination Under 30 V.S.A. § 202(f), with the Board recommending that the Board approve the Petition without hearing, finding that the issuance of long-term debt as set forth in the Petition is consistent with the Vermont Electric Plan.

On June 1, 2009, the DPS submitted a letter to the Board stating that it believes that the Petition is consistent with the general good of the state, and recommending approval of the Petition without a hearing.

I have reviewed the Petition, and the supporting documents. I conclude that approval of VPPSA's Petition pursuant to 30 V.S.A. § 108(a) is appropriate and that such approval may occur

without hearing. Based upon the evidence of record, the exhibits presented in this docket, and the DPS letters of May 28 and June 1, 2009, I hereby report the following findings and conclusion to the Board in accordance with 30 V.S.A. § 8.

II. FINDINGS

1. VPPSA has thirteen members who are all Vermont municipal electric utilities.¹ Petition at 1.

2. On January 21, 2009, the Board issued VPPSA a Certificate of Public Good pursuant to 30 V.S.A. § 248, in Docket 7376, for Project 10, which is a multi-fuel peaking generation project in Swanton, Vermont. VPPSA is currently in the process of constructing the Project. The most recent cost estimate for the construction of Project 10, including issuance costs related to the proposed financing, is \$26.8 million. Petition at 1, 2.

3. On February 26, 2009, VPPSA filed notice with the Board under 30 V.S.A. § 108(a)(1) of its intent to enter into a short-term line of credit with KeyBank National Association ("KeyBank") in the amount of \$21.8 million to fund the construction of Project 10. At that time, VPPSA felt that due to the uncertainty in the credit markets and low short-term rates, it would be beneficial to initially fund the construction using a short-term debt facility.² Petition at 2; Currier pf. at 2.

4. VPPSA has been subsequently advised by KBCM that the bond markets are currently offering relatively low rates. Consequently, VPPSA proposes to issue tax-exempt bonds in an

1. Barton Village, Inc. Electric Department, Village of Enosburg Falls Water & Light Department, Town of Hardwick Electric Department, Village of Hyde Park Electric Department, Village of Jacksonville Electric Company, Village of Johnson Water & Light Department, Village of Ludlow Electric Light Department, Village of Lyndonville Electric Department, Village of Morrisville Water & Light Department, Village of Northfield Electric Department, Inc., Village of Orleans Electric Department, Town of Readsboro Electric Light Department, and Swanton Village, Inc. Electric Department.

2. After reviewing the February 26 filing, Board staff determined that additional information was required. Accordingly, on March 2, 2009, the Clerk of the Board circulated a memorandum to the parties requesting a copy of VPPSA's commitment letter from KeyBank along with comments to be filed by March 6, 2009. VPPSA filed its reply with the Board on March 4, 2009. The DPS filed its comments with Board on March 5, 2009, recommending that the issuance of short-term debt should proceed without further investigation or hearing. On March 6, 2009, the Board issued a letter to VPPSA stating that it had reviewed the filings and concurred with DPS's recommendation.

amount not to exceed \$26.8 million, which represents the estimated cost of construction of the Project, plus the issuance costs of the Bonds and the funding of debt service reserve accounts. VPPSA anticipates issuance of the Bonds to occur in July 2009, carrying an all-in interest rate of 6.4% with a term of twenty years. KBCM has agreed to act as the underwriter for the new issuance. Currier pf. at 2, 3; exh. VPPSA-Currier-2.

5. Eleven of the VPPSA members ("Participants") have signed power sales agreements ("PSA") for the purchase of output of Project 10: Barton Village, Inc. Electric Department; Village of Enosburg Falls Water & Light Department; Town of Hardwick Electric Department; Village of Jacksonville Electric Department; Village of Johnson Water & Light Department; Village of Ludlow Electric Light Department; Village of Lyndonville Electric Department; Village of Morrisville Water & Light Department; Village of Northfield Electric Department, Inc.; Village of Orleans Electric Department; and Swanton Village, Inc. Electric Department. Petition at 1.

6. Project 10 is a resource that will contribute to the capacity obligations of the Participants at a cost to them that is expected to be lower than the cost of acquiring the same resource on the open market. Petition at 1.

7. Vermont Electric Cooperative, Inc. ("VEC") is not a member of VPPSA but has expressed an interest in purchasing 8.84% of the output of the Project provided that VEC receives the necessary approvals. Corse pf. at 2; Currier pf. at 3.

8. Unlike the eleven municipal Participants, VEC is not a tax-exempt entity. In the event VEC receives approval and commits to participating in the Project prior to the issuance of the Bonds, the bond issuance would be structured such that the majority of the issuance is tax-exempt with a smaller portion representing VEC's participation to be taxable. Currier pf. at 3.

9. Pursuant to federal tax rules, 5% or less of funds acquired through tax-exempt financing can be used for non-tax-exempt purposes. If VEC, or another taxable entity, elects to participate, VPPSA and KBCM have opted to use a more conservative percentage of 4.75% to allow some cushion for unforeseen developments. Thus with VEC's proposed participation at 8.84%, 4.09% would be done on a taxable basis resulting in two series of bonds: series A would

be tax-exempt, and Series B would be taxable. All costs associated with the taxable financing would be allocated and charged to VEC. Currier pf. at 3, 4.

10. In the event VPPSA issues a portion of the debt as taxable and VEC decides not to participate, VPPSA could defease the taxable portion of the issuance by taking out a tax-exempt bank note or by applying excess project revenues, or find a replacement taxable entity to purchase VEC's share of the Project's output. Currier pf. at 4, 5.

III. DISCUSSION & CONCLUSION

Based upon the foregoing and the evidence in the record, I find that VPPSA's Petition as described above will be consistent with the general good of the State. I therefore recommend that the Board approve the Petition and authorize the issuance of long-term debt financing without hearing.

The parties have waived their rights to file exceptions and present arguments under 3 V.S.A. § 811. Therefore, the proposal for decision has not been served on the parties.

Dated at Montpelier, Vermont this 12th day of June, 2009.

s/ Jay E. Dudley
Jay E. Dudley
Hearing Officer

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The findings, conclusion and recommendation of the Hearing Officer are adopted.
2. The request for long-term financing as set forth in the Vermont Public Power Supply Authority's ("VPPSA") petition in this docket, and as described in the Findings is consistent with the general good of the State of Vermont.
3. Pursuant to 30 V.S.A. § 108(a), consent is hereby given to VPPSA to finance the construction of the Swanton Peaking Generation Project in an amount not to exceed \$26.8 million in long-term bond issuance through KeyBanc Capital Markets, with an all-in interest rate not to exceed 6.40%, according to terms consistent with the Findings above.
4. This Order does not constitute approval for VPPSA, for any VPPSA Participants, or for Vermont Electric Cooperative, Inc. of the resulting capital structure or of any particular capital or operating expenditure that may be implemented with the proceeds from the issuance of long-term debt contemplated in the petition in this docket. Nothing in this approval shall preclude the Vermont Department of Public Service ("DPS") or any other party, or the Vermont Public Service Board ("Board"), from reviewing or challenging such expenditures or resulting capital structure.
5. VPPSA shall inform the Board and the DPS of any material change in the terms and conditions of the financing, if any, prior to closing.
6. VPPSA shall provide the Board and the DPS with a complete set of final loan closing documents within 10 days of the loan closing.

Dated at Montpelier, Vermont, this 12th day of June, 2009.

<u>s/ James Volz</u>)	
)	PUBLIC SERVICE
)	
<u>s/ David C. Coen</u>)	BOARD
)	
)	OF VERMONT
<u>s/ John D.Burke</u>)	

OFFICE OF THE CLERK

FILED: JUNE 12, 2009

ATTEST: S/ SUSAN M. HUDSON
CLERK OF THE BOARD

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@psb.state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.